

---

**Monthly Compilation of Views of  
VIF Expert Groups**

---

**China**  
**US-India Relations**  
**European Union**  
**Pakistan**  
**India-Sri Lanka Relations**  
**India's Neighbourhood**

---

Edited by Aayush Mohanty



© Vivekananda International Foundation 2020

Published in 2020 by

**Vivekananda International Foundation**

3, San Martin Marg | Chanakyapuri | New Delhi - 110021

Tel: 011-24121764 | Fax: 011-66173415

E-mail: [info@vifindia.org](mailto:info@vifindia.org)

Website: [www.vifindia.org](http://www.vifindia.org)

**Follow us on**

Twitter | [@vifindia](https://twitter.com/vifindia)

Facebook | [/vifindia](https://www.facebook.com/vifindia)

All Rights Reserved.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form, or by any means electronic, mechanical, photocopying, recording or otherwise without the prior permission of the publisher

## Editor's Note

The Vivekananda International Foundation (VIF) strives to ensure relevant geo-strategic discussions by different Expert Groups covering global as well as regional issues. In that vein, the groups hosted by VIF not only focused on foreign relations but prioritised discussions on the economic aspects. This issue consists of deliberations on U.S, Pakistan, India-Sri Lanka, India-Germany, and enhancing the regional value chain in South Asia. Domain experts from India, Germany, Sri Lanka, Bangladesh, and Nepal with years of experience discussed prospects of better trade, economic, security as well as foreign relations.

In the last two months, VIF not only held discussions with the experts but also engaged with other think tanks like Pathfinder and Stiftung Wissenschaft und Politik (SWP) from Sri Lanka and Germany, respectively, to discuss bilateral ties at length. The U.S Experts Group meanwhile discussed the upcoming U.S elections and technology cooperation. Experts from all over South Asia joined VIF to talk about regional value chain for the region. The newly-appointed Foreign Secretary of Sri Lanka was gracious enough to share his views and the way forward for India-Sri Lanka relations. Concurrently, China- Russia's bilateral relationship and

its implications for India was analysed by the China Expert Group.

The August-September issue contains unfaltering efforts of VIF experts and research team who gave their valuable inputs in a specified time frame. The coordinators from VIF of these meetings have made thorough reports which precisely indicate the spirit of the discussions held.

Aayush Mohanty

New Delhi

5 September 2020

# Contents

China-Russia Relations: a marriage of convenience?.....	6
- Compiled by Dr Teshu Singh	
U.S. Elections and the future of India-U.S. Relations.....	10
- Compiled by Himani Pant	
Revitalizing India-Germany relations.....	15
- Compiled by Himani Pant	
Pakistan's Misreckoning.....	20
- Compiled by Dr Yatharth Kachiar	
Resetting India-Sri Lanka relations.....	28
- Compiled by Dr Sreeradha Datta	
Possibilities of Developing Value Chains in South Asia.....	32
- Compiled by Dr Sreeradha Datta	

## **China-Russia Relations: a marriage of convenience?**

Compiled by Dr Teshu Singh

*The Vivekananda International Foundation (VIF) hosted the seventh meeting (virtually) of the Experts Group of China on August 31, 2020. Amb Ashok Kantha moderated the meeting. Attendees of the Experts Group meeting were Dr Arvind Gupta, Amb Satish Chandra, Lt Gen Ravi Sawhney, Amb Arun Singh, Mr Jayadeva Ranade, Amb R. Rajagopalan, Amb TCA Rangachari, Prof Srikanth Kondapalli, Prof Madhu Bhalla, and Dr Sanjeev Kumar. The agenda for discussion as set by the Experts group on China for discussion was “China-Russia Relations: Implications for India”*

China-Russia’s bilateral relationship in the last decade, especially after 2014, has grown, which has led to a mutual comprehensive partnership. The closeness between the two countries has reached the same levels as in the early 1950s, which was the beginning of a long drawn Cold War between the U.S and the USSR. India has kept a wary eye on this continually developing bond between the two but realizes that its relations with Russia was, is, and will continue to be a strategic necessity.

In a post-COVID world order, if there is going to be a new balance of power, China, Russia, India, and the U.S would have a crucial role to play. Russia cannot be taken out of the strategic equation. The fact

that they are the first to come out with the vaccine for COVID-19 is an evidence of their scientific and technological capacity.

From an eagle view, one would however observe that the ties between the two have not been comfortable except in the early '50s, as mentioned above. Even at that juncture, the relations were based more on China's pragmatic approach to develop the relationship for assistance in development of its technical and strategic capacities. This changed by the beginning of the 1960s with the Chinese shifting their allegiance to the U.S in 1972. This opportunist shift prompted Mao to actively support the west, especially the U.S, to contain the USSR. The past, therefore holds evidence that China's relationship with Russia today is based on opportunism and self-interest rather than on principles. A stable and growing relationship between the two, does not indicate shared world views. Furthermore, China still calls out historical treaties with Russia as unequal and plays into Xi Jinping's drive for modern Chinese nationalism. The increasing competition in Eurasia is another indicator of fault line between the two as resentment against Chinese investments and interference doesn't go well with the Russians.

There is no denying the fact that the west must be held accountable for Russia's increasing interest in developing a stronger relationship with China. The U.S, in its recent National Defense Authorisation Act (NDAA), called both China and Russia as hostile powers. The west's constant disapproval and distrust have lingered on since the end of the Cold War as Russia has always been treated as a major threat and has never been invited to be included in the European Security architecture. However, Russia's nuclear, military, science, and technology prowess would continue to help them shape the global order for the future, a fact which China acknowledges and continues to invest in their growth for its self-interest.

For the same reasons stated above, which fuels its strength and relevance, Russia has actively engaged itself in the Middle East. Meanwhile, China and Iran are working on developing a comprehensive strategic partnership. Unless the next U.S administration due after the elections this year goes back to the Joint Comprehensive Plan of Action (JCPOA), Russia might end up joining China and Iran and make it a trilateral comprehensive strategy pact. However, relationships growing strong do not indicate that there is no tension points the two countries.

### **U.S and European Policy towards Russia**

The 2016 U.S elections gave some hope that the U.S-Russia relationship would be revitalized under Donald Trump's Presidency. Certain headways were made, which put the process on a path for near normalcy. Unfortunately, the efforts fell flat as soon as the U.S decided to withdraw from the Intermediate-Range Nuclear Forces (INF) Treaty in August 2019. At the off-chance that the Trump administration would have succeeded in normalizing relations, it would have weakened Russia-China relations, and NDAA could have avoided naming Russia as a hostile power to U.S interests worldwide.

As mentioned above, from a military point of view, Europeans continue to see Russia as a military threat. The US-Russia relations, especially from 1990-2000, showed a certain realistic adjustment, despite the active eastward expansion of the NATO. It has however been and continues to be in the U.S interest to bound Europe in a security architecture with Russia as a perpetual potential adversary. Any hopes of the reversal of this mindset, even if there is a change in the U.S administration after the next elections, would be difficult to imagine.

There has been an attempt by France and Germany to discuss with the Kremlin on issues like Crimea while seeking a balanced relationship. Nevertheless, it is the Eastern and Central Europeans like Poland, Czech Republic who continue to see Russia as a potential adversary and are wary of its growing military strength, which leads to them supporting NATO's expansion in the region.

## **Conclusion**

The Russia-China relationship is a marriage of convenience due to the U.S and, in extension, the west's rigid policies on Russia, which has implications for India. The increasing economic dependency on China is now worrying the Russians, especially their energy industry, which is one of their significant sources of income since the western led sanctions were imposed.

There are built-in suspicions between Russia and China, who are occasionally seen as close partners. Media reports have shown that Russia has accused China of stealing military secrets. Interestingly, the accusation came at a time when Indian and Chinese forces were engaged on the Line of Actual Control (LAC) in June 2020. The Russian government also suspended the delivery of S400 missile systems to China while expedited the same for India. India's economic and strategic engagement has increased manifold with the U.S. However, its bonds with Russia continue to be strong. This was showcased when the Indian Defence Minister visited Moscow as tensions were running high on the LAC. The visit showed opportunities for both countries to enhance economic and military cooperation. India needs to nurture its relationship with Russia, and one way to do it could be to actively work on the Vladivostok-Chennai sea route, which may boost India's all-inclusive Indo-Pacific strategy.

## **U.S. Elections and the future of India-U.S. Relations**

Compiled by Himani Pant

*As the Presidential election in the United States of America arrives soon, there is enormous anticipation concerning the domestic and foreign policy of the next administration. The public opinion polls paint a mixed picture with a narrow margin between the Democrat and Republican presidential nominees, Joe Biden and Donald Trump, respectively. To understand what either a Biden administration or Trump second term in the Oval office would mean for the U.S. domestic and foreign policy and its implications for India, the Vivekananda International Foundation (VIF) organised a meeting of the U.S. Experts' Group on August 31, 2020. VIF Director, Dr Arvind Gupta, moderated the discussion. The participants in the meeting included Dr Rudra Chaudhuri, Mr Suyash Rai, Amb Satish Chandra, Amb Arun K Singh, Lt Gen Ravi Sawhney, Amb Anil Wadhwa, Lt Gen Anil Abuja, Vice Admiral Satish Soni, Prof KP Vijayalakshmi, Mr Pranav Kumar, and Dr Harinder Sekhon.*

### **U.S. Presidential Election 2020**

Joe Biden continues to be ahead in the majority of the national polls, albeit by a narrow margin. While the ambiguity of the polls reflects the divisions among the voter base, it also indicates a possible split between the popular vote and Electoral College in November.

With two months still left for the election, there is ample scope for shifting of the tide on either side, and the role of swing states such as Michigan, Pennsylvania, Wisconsin and others assume great significance in this context. As such, India needs to be prepared for both possibilities. Within this backdrop, it is interesting to envisage the domestic and foreign policy priorities for both the Biden and Trump camp and the ensuing implications for India. The following paragraphs insight into various scenarios.

### **Scenario I – Joe Biden as President**

Biden's domestic policy seems to be premeditated around inclusion and diversity, economic recovery, and healthcare focused on the management of COVID-19. The nomination of Kamala Harris as Biden's running mate has also been designed to reach out to the minority base. In the sphere of foreign policy, Biden's agenda seems to be premised on rescue and recovery, upholding and building multilateral alliances, unlike Trump. Interestingly, Biden's approach is seen as more nuanced but is not entirely in contrast to that of Trump in some spheres. In terms of continuity, Biden has not been quite vocal about reversing Trump's withdrawal from the JCPoA. His approach towards Russia is expected to be tougher, but this would not result in significant policy changes. U.S-Russia relations continued on the same trajectory (sanctions continued) despite Trump's fondness for Putin due to the Republican Party's insistence.

Differences, however, are anticipated concerning Biden's policy towards China. This implies that the U.S. stiff posture towards China would continue but would not be accompanied by the kind of technological decoupling envisaged under the Trump administration. In terms of data privacy, Biden and the Democrats advocate 'open internet' as opposed to Trump's focus on 'clean network.' Finally, on

trade, there are indications that Biden may seek to renegotiate the Transpacific Partnership (TPP).

### **Scenario 2- Trump as President**

COVID-19 pandemic has posed a serious challenge to Trump's prospects for re-election to continue in the Oval Office. The initial indecisiveness and (mis) handling of the COVID-19 has worked against him. Given the circumstances, economic recovery and procuring a COVID vaccine dominate Trump's domestic priorities. He has already introduced tax breaks that have worked well in the battleground states, but there may be other economy-related projects in the pipeline that could turn the tide in his favour and even bring back the country from the pandemic inflicted high unemployment rates.

Recent trends indicate that although the unemployment rate remains higher than before the onset of COVID-19, it has begun to show signs of recovery. The unemployment rate fell to 8.4% from 10.2% in July as a result of continued hiring. There seems to be a lot of hope and effort pinned on introducing the vaccine in October to regain the popular base. The extent of economic recovery in the next two months and the progress in vaccine development are thus likely to play a decisive role in the election. In terms of foreign policy, his 'America first approach' is likely to continue, and so will the current retrenchment if he wins the election.

Notwithstanding the election outcome, relations with the U.S. are essential for India. While the U.S. -India relations have grown in recent years, there is much scope for further cooperation. It is in this context that the prospects and challenges for technological cooperation between the two needs to be analysed.

## **U.S.-India Technological Cooperation: Opportunities and Challenges**

The extent to which India succeeds in expanding its export basket would decide the future of its technological cooperation with the U.S., irrespective of the administration in power. India's current participation in the global value chains is below par due to underutilisation of current capabilities. Changes due to Industry 4.0 in the coming years would lead to a less labour-intensive production future for which India has to be prepared.

The U.S.- China trade decoupling also provides India opportunities for benefitting from supply chain diversification. This, in turn, calls for domestic reforms of land, labour, and capital as well as a better tax regime as well as policies helping ease of doing business and making it more investment-friendly. A positive example in this respect is the raising of the FDI limit in the defence sector, which also helps the country in its 'Make in India' initiative. A range of other areas could be identified in this respect. Along with building upon technological capabilities within, there is scope for collaboration with the U.S. in a range of spheres like electronic products (I.C., semiconductor, capacitors, batteries, etc.) and industrial machinery, among others. Opportunities also abound in the services sector, such as health care, retail.

In conclusion, the situation around the election is still evolving. The scope for a last-minute swing on either side remains. Notwithstanding the outcome, India can deal with either administration, provided it exercises adequate clarity in terms of its goals and expectations in its relationship with the U.S. India has an immense capability for technological development, which at present remains underutilised. In order to benefit from the supply chain diversification in the

aftermath of COVID-19, it would serve well India to balance its policy of self-reliance or 'Atmanirbharta' with an adequate amount of foreign investment in certain sectors. Instead of basing the model of development exclusively on the FDI, technology transfer, or becoming a manufacturing hub, there is a need to identify areas where such cooperation is essential.

## Revitalizing India-Germany relations

Compiled by Himani Pant

*To deliberate on the geopolitical challenges faced by Germany and India as well as to discuss the scope of bilateral ties the Vivekananda International Foundation (VIF) and German Institute for International and Security Affairs, Stiftung Wissenschaft und Politik (SWP) organised a joint video conference on 24 August 2020. The webinar was led by VIF Director, Dr Arvind Gupta, and SWP Director and executive chairman Dr Volker Perthes. Their opening remarks were followed with presentations by Dr Gupta, Dr Habil. Markus Kaim, Amb TCA Rangachari, and Major Dominic Vogel. Dr Christian Wagner, Lt Gen. Ravi Sawhney, Amb Anil Wadhwa, Amb Arun K. Singh, Prof Gulshan Sachdeva, Ms Bettina Rudloff, Ms Richa Arora, and Mr Ferdinand Schlechta participated in the discussion.*

### **COVID-19 and the Emerging Geopolitical Scenario: Impact on Germany and India**

The ongoing COVID-19 pandemic has resulted in a visible impact on politics, economy, society, and security, as well as the general mindset of people. It is likely to result in the emergence of a new paradigm in the coming years. The new balance of power which has been taking shape for some time has accelerated amid COVID-19 and is characterised by the growing assertiveness of China in

several regions of the world; worsening US-China rivalry and a strained transatlantic partnership. The US-Germany relationship, in particular, has entered a difficult phase owing to Nordic 2 related sanctions, NATO troops withdrawal from Germany as well as a haggard relationship between Chancellor Angela Merkel and President Donald Trump. The worsening of ties has put Germany and the E.U. in a peculiar position as there is no alternative to NATO for defence and security. But, there is prospect for improvement in this respect which is tied to a change of administration in the U.S. Presidential election due later this year. Moreover, there are significant developments in the Middle East, OIC and China's growing relations with Russia and Iran, along with several other developments worldwide shaping the post-COVID world.

One of the major developments concerning Germany is the return of geopolitics in the European neighbourhood. Unlike the 1990s, when the EU was the leading player in shaping the neighbourhood by offering partnership agreements and other incentives, several players like Russia, China, and Turkey have emerged to shape Europe's immediate neighbourhood. Since Germany's overarching policy goal is 'integration at any cost,' the E.U.'s biggest economy has the added task of bringing about coherence and unity within the Union in matters of domestic and foreign policy.

As Germany and the E.U. face new realities in their neighbourhood, something similar is also brewing in the Indian neighbourhood. India is facing an increasingly assertive China on its Himalayan border while also dealing with the latter's expansionist tendencies by which it is making swift inroads around India.

The ongoing pandemic has reinforced the negative trends of globalisation and given rise to protectionist trends across nations.

India's policy of 'Atmanirbharta' or self-reliance is one such measure to build internal capacity while engaging judiciously with the outside world. However, the concept has been understood differently in some countries, including Germany. The doubts regarding the inward-looking orientation of the policy were moved as it was observed that 'Atmanirbharta' was not aimed at cutting off from the global supply chain. It is only a judicious mix of protectionism and openness to protect traditional sectors of the country while promoting focus on its "champion sectors".

### **Indo-German Relations**

The current global environment is characterised by growing socio-political and economic unrest. Amid the changing nature of alliances and balance of power, it is pertinent to view the ongoing geopolitical trends through German and Indian lens. As important partners, it is also time for both countries to familiarise each other with their respective perceptions of the emerging world order and their role in it.

Situating Indo-German ties amid this changing geopolitical context is vital to charting out a resilient partnership in the coming years. India attaches great importance to its relations with Germany both within the context of bilateral ties as well as in the framework of the European Union (E.U.). Both countries are strategic partners since 2001 and enjoy cordial and robust ties, especially in the economic and science and technology domain. However, the current scope remains limited due to mutual unwillingness, different geography as well as circumstances. In light of the above-mentioned trends, there is a need to revisit the Indo-German partnership to reach its true potential. This would entail moving beyond the traditional sphere of cooperation of trade to renewable energy, climate change and other non-traditional security threats.

## **Prospects for Indo-German cooperation;**

1. There is much potential for Indo-German cooperation in the defence sector. The sector in India is open for investment and offers scope for progress akin to the Indo-French defence ties. The response from Germany has been positive indicating in this regard.
2. Both countries could engage dialogues on bilateral and multilateral issues of mutual concern as well as their regional issues and concerns. Familiarising the other side of their respective positions would create a better understanding. A wide range of issues like NATO, European neighbourhood, Indian neighbourhood, Middle East developments, as well as cyber and space security, could be addressed within this forum.
3. There is a need to involve and integrate people beyond the think tank community to such deliberations. Policymakers and parliamentarians could be part of the process to ensure practical gains of the exercise. Also, German experts could come to India to train people in skill development programmes.
4. Finally, combating climate change should continue to be a focus area, especially in the post-COVID period. There is also scope for greater cooperation in the maritime domain.

To conclude, there is a great deal of untapped potential in Indo-German ties. There is a need for more dialogue and consultations on socio-political and economic issues. While consensus may not always be possible, the discussions would serve as a platform to create awareness about one another for a more resilient partnership.

For instance, such a platform could be used by India to clarify its position on 'Atmanirbharta' to its German and European partners. Another important outcome of such meetings could be to discuss China and its expansionist tendencies, of which both Europe and India have been at the receiving end.

## **Pakistan's Misreckoning**

Compiled by Dr Yatharth Kachiar

*The Meeting of the Pakistan Study Group was held via video conferencing on August 10, 2020. The main items on the agenda were: Pakistan-China relations amid the India-China stand-off; Pak antics on August 05 anniversary – ‘mapping’ the future; Pak-Saudi relations – Shah Mehmood Qureshi’s threat; growing Army footprint, and Imran Khan’s position along with Whither intra-Afghan dialogue and the peace process. The attendees of the Expert Group meeting were Director VIF Dr Arvind Gupta, Ms Shalini Chawla, Mr Sushant Sareen, Mr Rana Banerjee, Amb Satish Chandra, Amb TCA Raghavan, Amb Amar Sinha, Amb Gautam Mukhopadhyay, Amb D P Srivastava, Brig Rabul Bhonsle, Mr CD Sahay, Gen N.C. Vij, Lt Gen. Ravi Sawhney, Lt Gen. Ata Hasnain, Amb Arun Singh, and Mr Tilak Devasher.*

### **Pakistan-China collaboration and India-China stand-off**

The Pakistan-China axis remains strong as seen in the recent U.N. Security Council meeting that was convened by China to discuss the Kashmir issue under ‘Any other Business.’ The meeting, however, did not result in any outcome. Most of the members emphasized that the Kashmir issue did not deserve the attention of the UNSC since it was a bilateral matter between India and Pakistan. The

recent move to internationalize the Kashmir issue coincided with the first anniversary of the reorganisation of the state of Jammu and Kashmir into two union territories- Jammu & Kashmir and Ladakh. The U.S took the lead in opposing China's move and was later joined by other members of the Council.

The unsuccessful attempts of Pakistan in garnering international support against India on the Kashmir issue has become an uncomfortable reality for Islamabad. On China's recent move at UNSC to discuss the Kashmir issue, the Ministry of External Affairs (MEA) stated: *"We have noted that China initiated a discussion in the U.N. Security Council on issues of the Indian Union Territory of Jammu and Kashmir. It is not the first time that China has sought to raise a subject that is solely an internal matter of India. As on such previous occasions, this attempt too met with little support from the international community. We firmly reject China's interference in our internal affairs and urge it to draw proper conclusions from such infructuous attempts."*

In a bid to strengthen Pakistan-China relations, the Executive Committee of the National Economic Council (ECNEC), the top economic body of Pakistan, recently approved one of the costliest projects under the China-Pakistan Economic Corridor (CPEC). The project worth USD 6.8 billion known as, Mainline-1 (ML-1), is to upgrade its existing 2,655 km railway tracks. Interestingly, the sanctioned amount for the project is almost equal to Pakistan's entire development budget for fiscal 2020-21, which is USD 7.9 billion. Both countries have also forged a unique intelligence-sharing arrangement to secure Chinese influence in Afghanistan.

At present, China is also alluring the countries in South Asia on the pretext of COVID-19 aid and BRI to widen its sphere of influence. The recent China-Pakistan-Nepal-Afghanistan Foreign Ministers' Meeting is a glaring example of China's increasing involvement in

the Indian sub-continent. According to reports, during the Foreign Minister's meeting, the Chinese cited the example of Beijing's ties with Islamabad and called on Nepal and Afghanistan to follow the same development model and fight the pandemic.

### **Pak antics on August 05 anniversary – 'mapping' the future**

The recently issued political maps by Pakistan does not indicate anything new. At best, it indicates the territorially revisionist nature of the Pakistani state and its growing frustration with the status quo. It is yet another attempt by the Pakistan military to keep the Kashmir issue afloat. It also helps the PTI government is distracting the public from PM Khan's abject failure at every governance issue. The 'timing' of the issuing these maps is rather interesting since it indicates the perception within Pakistan that India at present is already facing the heat on border issues vis-à-vis China and Nepal. Moreover, despite its dwindling economy, there is an increasing sense of triumphalism in Pakistan, especially in the background of sustained Chinese support, the possibility of the Taliban coming back to power in Kabul and improved relations with the U.S. The adverse reporting on India by the international media has bolstered the sense of triumphalism in Pakistan even more.

Nevertheless, India should take note of the 'cartographic terrorism' launched by Pakistan. Some analysts believe that the rhetoric launched by Pakistan on Kashmir at various international fora retold the story of the 1990s when Benazir Bhutto unleashed a similar offensive vis-à-vis India. However, during the 1990s, the situation in Kashmir was more volatile due to Pak-sponsored terrorism. What New Delhi requires at present is to enhance its outreach to the people of Kashmir and establish people-to-people contacts. It is also significant to take some political initiative in Jammu and Kashmir while improving governance.

## **Pakistan-Saudi Arabia relations – Shah Mehmood Qureshi's threat**

The growing rift with Saudi Arabia has attracted new troubles for the debt-ridden nation as it is heavily dependent on Riyadh for financial support and oil. Foreign Minister Shah Mehmood Qureshi's critical remarks on Saudi Arabia- the current chair of the Organisation of Islamic Cooperation (OIC)- has brought the rift out in the open. Qureshi criticized Saudi Arabia for its reluctance to accept Islamabad's request for an immediate meeting of OIC foreign ministers' on Kashmir.

Pakistan has also threatened to hold a separate meeting of Islamic nations willing to discuss Kashmir if the grouping failed to do so. Such a warning is a direct challenge to Saudi Arabia's leadership of the Islamic world and is probably backed by countries such as Turkey. Many Islamic nations, including Saudi Arabia, UAE, Indonesia, and Oman have backed India's position that Kashmir is a domestic issue. At the same time, it shows Islamabad's inability to get international support on the issue in the Islamic world, which is seen within Pakistan as an abject foreign policy failure.

Directly challenging Riyadh could prove costly for Islamabad as indicated by the premature repayment of USD 1 billion debt to Saudi Arabia- four months ahead of its repayment period. It is interesting to note that Pakistan repaid USD 1 billion in debt to Saudi Arabia after borrowing it from China on short-term notice. Moreover, as the deal signed between Pakistan and Saudi Arabia for the provision of USD 3.2 billion worth of oil expired two months ago. Riyadh has not moved ahead on Islamabad's request to extend the facility. In 2018, to ease Pakistan's external sector woes, Saudi Arabia had announced a USD 6.2 billion package, which included USD 3.2 billion Saudi oil facility. Reports suggest that the package

given by Saudi Arabia had the provision of renewal for two more years.

Saudi Arabia had disbursed USD 3 billion in loans to Pakistan between November 2019 and January 2020. Pakistan was able to tackle its debt sustainability after receiving help from Saudi Arabia, UAE, and China. The financial aid provided by these three countries became critical for the ailing Pakistan economy as they collectively approved USD 14.5 billion package for Pakistan, which included the UAE and Saudi Arabia's oil facilities as well.

The premature repayment of the Saudi loan after borrowing it from China and the expiry of the oil facility indicates tough times ahead for Saudi-Pakistan ties. What makes the situation challenging for Islamabad is that the IMF program, which is critical for its economy, is technically under suspension for the past five months. Pakistan has built its financial reserves by taking loans from other countries. The expiration and repayment of oil facilities and loans respectively, will drain the already depleted reserves of the central bank.

### **Growing Army footprint and Imran Khan's position**

Imran Khan's inept governance skills and the COVID-19 pandemic has given the Generals in Rawalpindi the unique opportunity to expand their control over civilian affairs. Several retired and serving military officials are at present in charge of prominent government positions. These include the state-owned air carrier, the power regulator, the National Institute of Health- a key institution leading the country's policy response to the pandemic.

The increasing role of the military in civilian affairs has come in the background of Imran Khan's dwindling popularity across the country primarily because of a slowing economy, higher inflation

and consumer prices, and corruption scandals involving his close aides. Army support has been the most significant factor behind the PTI government's survival- which holds 46% of seats in parliament and therefore relies on several smaller coalition partners to stay afloat.

The expansion of the military's role is also visible during the COVID-19 press briefings by the government on state television, where serving army officers are always present to assist in the pandemic response. At present, the communication advisor to PM Imran Khan is retired Lt. Gen. Asim Saleem Bajwa. He is also overseeing the implementation of the CPEC. The military's ever-increasing role in civilian affairs is facilitated due to the support of many advisors of the government. Recently, Zaigham Rizvi, a member of the *Naya Pakistan Housing Program taskforce*, appointed two army officers to the body.

Resultantly, Khan's hold on power will continue to diminish as current and retired army officers, as well as army-backed political appointees, assume more executive authority. The position of PM Khan is no different from any of his democratically-elected predecessors. What is different in civil-military dynamics under the PTI government is PM Khan's willingness to give more space to the army to consolidate power and run the day-to-day affairs. The compliance shown by Khan and the unavailability of any other suitable option has refrained the army from pulling the plug on him despite his dismal performance on all fronts.

At present, Pakistan is also facing a grave threat from rising religious extremism in the country. The growing opposition to the construction of a temple in Islamabad and the destruction of a Buddha statue in Khyber Pakhtunkhwa indicates the dismal state of minority rights in Pakistan. Another serious concern is the waning press freedom

in the country due to attacks and intimidation by security forces and government. The recent incident of the kidnapping and later release of Matiullah Jan by unidentified men in Islamabad was widely criticized. The new education policy also raises the alarm since it aims to create a religion-based society. It talks about putting *madrassas* at the same level as other schools and making religious materials mandatory from nursery onward. The new Class 1-5 curriculum is exceptionally detailed and puts more emphasis on religious content. It will lead to automatic discrimination since non-Muslim students cannot be allowed to study from the Holy Book; they will be separated.

### **Whither intra-Afghan dialogue and the peace process?**

The *Loya Jirga*, which concluded recently, approved the release of 400 remaining Taliban prisoners, thereby paving the way for initiating the intra-Afghan negotiations. It clearly stated that the release of prisoners must come with the assurance that intra-Afghan talks will begin “*without any further excuses.*” At the same time, it also asked for a guarantee that the released prisoners “*will not return to war, and their activity will be monitored.*” Among other things such as preservation of the constitution, women’s rights, strengthening of security forces, the resolution passed by *Loya Jirga* also included a call for an immediate and long-lasting ceasefire. President Ghani has signed a decree for the release of prisoners.

Under the increasing American pressure, the Afghans have already heeded all the demands put forward by the Taliban. In case the Taliban does not uphold their end of the deal, the reversal of that fallout will be impossible to achieve. The reducing U.S. presence within the country will further embolden the Taliban to adopt a non-compromising attitude during the intra-Afghan negotiations.

The U.S. Defence Secretary, Mark Esper, has already stated that the U.S. will bring down its troop level in Afghanistan to 5,000 by the end of November. At present, the Afghan government is preparing to enter into intra-Afghan negotiations with almost no leverage vis-à-vis the Taliban that does not even recognize the Kabul government. Under the circumstances, India must expand its reach to all the ethnicities in Afghanistan while strengthening support for the democratic forces there.

## **Resetting India-Sri Lanka relations**

Compiled by Dr Sreeradha Datta

*On 17 August 2020, the Vivekananda International Foundation (VIF) and the Pathfinder Foundation of Sri Lanka held a dialogue on global and regional situations as well as bilateral ties, focussing on economy and connectivity issues hosted by VIF. The Vivekananda International Foundation participants; Mr Sanjay Chadha – Additional Secretary, Ministry of Commerce and Industry, India and Amb Anil Wadhwa, Former Secretary (East) in the Ministry of External Affairs, Amb Satish Chandra, Lt Gen Ravi Sawhney, Prof S.D. Muni, Dr Sreeradha Datta, and Ms. Chhavi Vasisht. The Pathfinder Foundation participants included Amb Bernard Goonetilleke, Chairman of Pathfinder Foundation; Admiral Prof Jayanath Colombage, Foreign Secretary of Sri Lanka; Dr Indrajit Coomaraswamy, Former Governor of the Central Bank, Sri Lanka Amb Prasad Kariyawasam, Former Foreign Secretary and High Commissioner for India, Ms Ameera Arooz, Director of Pathfinder Foundation and Ms. Gayathri de Zoysa and others.*

The 16<sup>th</sup> parliamentary elections in Sri Lanka (SL) held on 05 August 2020, elected Mahinda Rajapaksa as their Prime Minister. The newly-appointed Foreign Secretary Admiral Jayanath Collambage joined the deliberations and frankly discussed the concerns, both in the regional and the bilateral context as well. Significantly this dis-

cussion was held a few days before FS Collambage announced the 'India First Policy' and the appointment of Ashok Milinda Moragoda as the High Commissioner to India. Discussions about future collaborative measures all resonate with a positive note for the future of the Indo-Sri Lankan bilateral ties.

The VIF -Pathfinder meeting discussed India - Sri Lanka's economic and security relations in the emerging global geopolitical dynamics. Sri Lanka had managed the COVID-19 crisis well, registering only 14 deaths. While many countries wanted to help Sri Lanka to deal with the crisis, India's assistance during COVID-19 was widely appreciated. Indeed, the challenges posed by COVID-19 have led to new opportunities to cooperate in the health and economic sectors. It was emphasised that Sri Lanka would follow 'India First Policy' in defence and security areas as well.

The need to resolve the long outstanding issues would support taking the bilateral ties forward. There seemed some misconception about the Indo-Sri Lanka Free Trade Agreement in Colombo, and despite India's contribution to their economy remained several misgivings that were cleared. The public perception about India and its role in Sri Lanka needed to be improved. The fisheries dispute has been lingering for too long. There are many suggestions on the table, and given the sensitivities involved, both sides wished for an amicable resolution soon. While they appreciated PM Modi's efforts to revitalize SAARC but they hoped that it would be revived and not fall into slumber again.

Sri Lanka was looking for increased Indian investment and hoped that they would benefit and also be able to support the 'Make in India' program. The comprehensive economic and technical agreement discussions should be concluded soon. This will be beneficial for both sides though there are lingering doubts in Sri Lanka

though about it.

The Indo-Sri Lanka connectivity needs a renewed priority. The Sri Lankan government will keep 51 percent equity in any strategic project. There seemed a consensus about the Mannar-Rameshwaram ferry services starting soon. The possibilities of grid connectivity were flagged. The public perception of the benefits accruing from these connectivity projects be improved. It was pointed out that they were resisting giving the eastern terminal to India and Japan. Pertinently, it was pointed out that Sri Lanka was putting serious thought into India and Japan collaborating on the port terminal in Colombo. However, the Sri Lankan government was hesitant to make any progress as they now wish to hold 51% equity, unlike what was discussed earlier amongst the three stakeholders. A previous proposal for a terminal, with the state-run Sri Lanka Ports Authority (SLPA) owning a 15% stake and the remainder held by a consortium of firms from Japan, India, and Sri Lanka has now been shelved.

The Indian participants raised concerns about China and its role in Sri Lanka. Pathfinder reiterated their position to stay clear of the Asian power rivalry that was evident in the region. Sri Lanka would remain neutral in the face of the Sino-Indian differences. However, they will continue to promote economic and commercial ties with China and welcome the capital they provide. Indeed they were pleased with the proposed Belt Road Initiative proposed by China. Interestingly Pathfinder participants pointed out that their debt to Japan was the same as theirs with China.

The bilateral relations are based on cultural links spanning generations. The 'Make in India' initiative will help in reconfiguration. If it works, then it will help South Asia to reach the same levels as South-East Asia, China, and Japan. Sri Lanka can plug into the

supply chains from India. Industry 4.0 has seen a shift in investment from South China, and India can gain a lot from it. Sri Lankan companies, with India's assistance, can lead to the shifting of global supply chains from China to both India and Sri Lanka. Infrastructure has been upgraded to the Colombo port and airport, and the island nation's proximity to South India can fuel the growth of trade. The proximity should be taken advantage of as India can invest in Sri Lankan Special Economic Zones, which would help create an Indian footprint in a market dominated by Chinese State and Private Firms. The two-thirds majority mandate received by the Rajapakse led government provides a window for India to explore new opportunities as well as implement several of the previously discussed issues. The bilateral relations between India and Sri Lanka, as the discussions concluded, had the potential to strengthen the political, economic, and security cooperation between the two neighbours for the way ahead.

## **Possibilities of Developing Value Chains in South Asia**

Compiled by Dr Sreeradha Datta

*On 24 July 2020, the Vivekananda International Foundation (VIF) hosted an online discussion on “Possibility of Developing Regional Value Chain in South Asia.” The panel included Dr Sreeradha Datta, Mr Bipul Chatterjee, Mr Pratim Bose, Mr Analraj Bhattarai, Mr Shaquib Quoreshi, and Dr Nuwanthi Senaratne. From the VIF, Dr Arvind Gupta, Amb Ranjit Rae, Lt Gen Ravi Sawhney, Mr Aayush Mohanty, and Ms Cchavi Vasisht also participated in the discussions.*

The core question raised was to examine the issues regarding the possibility of developing Regional Value Chains (RVCs) in South Asia. Due to historical and aspirational issues, India’s trade and connectivity with South Asia suffered in the post-Independence period. Initiatives were visible to change this paradigm after liberalization in 1991. India-Sri Lanka FTA was signed in 1998 (operationalized in 2000). South Asian FTA (SAFTA) was signed in 2004 and operationalized in 2006.

However, regional trade barely took off till the last decade. Apart from India-Pakistan rivalry, lack of growth appetite in the region and poor trade logistics were primary hurdles before regional trade. Though the subcontinent inherited huge connectivity options, such infrastructure was nearly destroyed post-1947. The Indian plans to

spruce up border trade infrastructure barely saw much progress till the last decade. India's domestic transport logistics itself was weak and costly until the Golden Quadrilateral Highway project was initiated in 1999, and as a net result, regional trade was exorbitantly costly.

An oft-repeated phrase is that of the South Asian region remaining one of the least integrated regions. While still a few months ago, this region was one of the fastest-growing ones, particularly fuelled by Bangladesh, that recorded the highest growth numbers. Although, the recent COVID 19 pandemic has grounded all the economies.

A newly emerging multimodal transport corridor is emerging, and it is possible to examine the RVC potential in the region. These are all small steps towards the transformational changes taking place in the region, leading to more efficient ways to trade and commerce within the region. Expectedly, the regional trade and commerce also will improve with more facilitation being undertaken at borders and within each neighbour. This is not to suggest that bilateral value chains do not exist, but they are not robust enough and are often subjected to domestic vagaries and several other regulatory mechanisms.

Regional value chains consist of various activities such as design, production, marketing, distribution, and support to the final consumer within a geographical outline. In several regional economies, most of the goods, as well as services, are produced by states that specialises in different functions and tasks as opposed to the single product being produced within and by a single state. It has been seen that while the government to government ties seem in place, the lack of compatible products and limited supply has held back trade integration in the region. The lack

of FDI in the region is also instrumental in understanding the low-level RVC.

It was further pointed out that India cannot depend on Maldives, Bhutan, Afghanistan, Pakistan, and Nepal for value chain creation at this juncture. While Afghanistan has logistics issues without any easy solution, Bhutan and Maldives are too small and have potential only in service sector value creation. Nepalese economy lacks competence and survives on duty arbitrage opportunities with India. It is the weakest economy in SAARC and integration of production and processes unlikely to be successful till Nepal reforms its economy.

India, therefore, should focus on Sri Lanka and Bangladesh for future value chain creation. The economies in the region operate differently. Sri Lanka does not have an adequate domestic market. It is a relatively mature economy with a decent value chain in existence and is located near India's most developed States endowed with good infrastructure. In comparison, Bangladesh has a vast domestic economy and shares a border with India's least developed regions or States. It will soon lose the LDC status and the related duty advantages in India. Though Bangladesh enjoys the benefits of labour cost arbitrage, it suffers from inefficient logistics. The country has already missed the opportunity for high-value FDI (Tata) and the resultant value chain creation opportunity. The financial services sector in Bangladesh is awaiting reforms for quite some time.

The idea of developing a single regional window for value chains is one of the options that the countries could adopt to enhance trade facilitation. The goods and services need to move freely. The incremental positive changes taking place in the last few years must continue, and the countries must change their mindset to help cooperate and collaborate in the RVCs. Especially in the Post-

COVID 19 world, the setting up of RVCs would help in integrating trade in the region. The governments in the region would need to initiate domestic policies reform and reduce the regulations to ensure trade in goods and services grow and flourish in the days to come

For any significant initiative to develop a regional value chain, the following broad activities need to be undertaken:

- i. Initially select 3-4 products for each country in the South Asia region, or a sub-region therein, for which there are domestic supply capacity and trade with the rest of the world, but no or limited trade in the region while there is demand and import of the same products in the partner country/countries from the rest of the world.
- ii. Identify the effective tariff and para-tariffs, and applicable non-tariff measures (NTM) for the products in the partner country/countries in the region.
- iii. Analyze how these tariff and non-tariff measures restrictions are applied to assess the barriers/restrictions they create on trade value and volume of the products, if any, and express the same in quantitative terms.
- iv. For the same products, analyze the influence of other three broad categories of critical factors mentioned above, appropriately quantify them, and find out the existing co-relations among them, if any
- v. Develop a methodology for quantitative and qualitative analysis for the material significance of NTBs, and other vital factors influencing value and volume of trade in the region for the selected products.

- vi. Formulate a set of recommendations.
- vii. For India, there is a need to identify state-specific restrictions as well.

## **About the VIVEKANANDA INTERNATIONAL FOUNDATION**

The Vivekananda International Foundation is an independent non-partisan institution that conducts research and analysis on domestic and international issues, and offers a platform for dialogue and conflict resolution. Some of India's leading practitioners from the fields of security, military, diplomacy, government, academia and media have come together to generate ideas and stimulate action on national security issues.

The defining feature of VIF lies in its provision of core institutional support which enables the organisation to be flexible in its approach and proactive in changing circumstances, with a long-term focus on India's strategic, developmental and civilisational interests. The VIF aims to channelise fresh insights and decades of experience harnessed from its faculty into fostering actionable ideas for the nation's stakeholders.

Since its inception, VIF has pursued quality research and scholarship and made efforts to highlight issues in governance, and strengthen national security. This is being actualised through numerous activities like seminars, round tables, interactive dialogues, Vimarsh (public discourse), conferences and briefings. The publications of VIF form lasting deliverables of VIF's aspiration to impact on the prevailing discourse on issues concerning India's national interest.



### **VIVEKANANDA INTERNATIONAL FOUNDATION**

3, San Martin Marg, Chanakyapuri, New Delhi – 110021

Phone: +91-11-24121764, 24106698

Email: [info@vifindia.org](mailto:info@vifindia.org),

Website: <https://www.vifindia.org>

Follow us on [twitter@vifindia](https://twitter.com/vifindia)